

JEFFERSON, URIAN, DOANE & STERNER, P.A.

DELMAR SCHOOL DISTRICT

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

JUNE 30, 2007

FIELDWORK END DATE: NOVEMBER 28, 2007

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Dr. David Ring, Jr.
Superintendent
Delmar School District
200 N. Eighth Street
Delmar, Delaware 19940

The Honorable Valerie A. Woodruff
Secretary, Department of Education
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401 Federal Street
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We have performed the procedures enumerated below, which were agreed to by Delmar School District; the Office of Auditor of Accounts; and the State of Delaware Department of Education, solely to assist the specified parties in evaluating the School District's compliance with criteria from the State of Delaware Fixed Asset Policy Manual, the State of Delaware Department of Education School Construction Technical Assistance Manual, the Delaware Code, and the State of Delaware Budget and Accounting Manual relative to the school construction projects administered by the School District for the year ended June 30, 2007. Delmar School District's management is responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* (2003) issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Determine if the School District's policies and procedures for identifying, tracking, and recording capital assets are adequate.

Upon completion of Delmar School District's construction program and project checklist, our procedures resulted in finding(s), see *Appendix A*.

2. Determine whether the School District's construction project records and files (current and prior fiscal years) are accurate.

Upon completion of Delmar School District's construction program and project checklist, our procedures resulted in finding(s), see *Appendix A*.

3. Determine if expenditures are accurately stated and are made in accordance with the State Fixed Asset Policy Manual and the intent of the project scope mandated by the General Assembly, the Department of Education, and the Local Board of Education.

There are no findings upon completion of Delmar School District's construction program and project checklists.

4. Determine whether the School District's construction project records and files include only active construction projects as of June 30, 2007. Ensure that completed projects have been appropriately closed out of construction and added to the State Fixed Asset system.

There are no findings upon completion of Delmar School District's construction program and project checklist. No projects were completed during the fiscal year ended June 30, 2007.

5. Prepare the School District's Schedule of Construction Projects for Fiscal Year 2007.

See Appendix C.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Delmar School District management and Board Members, the Office of Auditor of Accounts, and the State of Delaware Department of Education, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Department of Finance, the State Treasurer's Office, and the Office of Auditor of Accounts.

Jefferson, Urian, Doane & Sterner, P.A.

Georgetown, Delaware
November 28, 2007

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

Procedure Agreed Upon #1

Finding 07-01:

During completion of Delmar School District's construction program and project checklist and as noted in prior year Finding 06-01, the School District did not have written policies and procedures in accordance with the State of Delaware's Fixed Asset Accounting Policy Manual II.B. and II.C. The Manual requires each State organization to establish written procedures and controls necessary to implement and monitor prescribed fixed asset accounting and reporting policies, guidelines, and standards. School District personnel were unaware of this requirement. Delmar School District could potentially be exposed to fraud, misuse of appropriated funds, and improper capitalization of construction work-in-progress and completed projects when adequate policies and procedures are not in place.

Recommendation:

Delmar School District should establish written procedures to ensure that the State's fixed assets are properly monitored, identified, and recorded.

School District's Response:

"Delmar School District will establish written procedures to ensure that the State's fixed assets are properly monitored, identified, and recorded."

Procedure Agreed Upon #2

Finding 07-02:

During completion of Delmar School District's project checklists for Delmar Jr./Sr. High School renovations, it was noted that the School District's project construction files did not contain certain information required by the State of Delaware Budget and Accounting Policy Manual, XII.D.3.d., XII.D.3.f., XII.D.3.m. and XII.D.3.p. School District personnel did not maintain copies of instructions to bidders and job specifications, each bidder's proposals, copy of a working budget after award of contract and certification on file of the official start of construction, respectfully. This was due to an oversight by School District personnel. Failure to comply with State of Delaware provisions, including Budget and Accounting Policy Manual, could result in fraud, errors, and irregularities.

Recommendation:

Delmar School District should obtain and properly file the aforementioned items from all contractors for the Delmar Jr./Sr. High School renovations project.

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

Finding 07-02:

School District's Response:

“Delmar School District now has, in our file, the copies of the instructions to bidders and job specifications that were not readily available at the time of the audit. The monthly Board Financial Reports now include an update on the working budget for the construction contract funding and change orders. The District will obtain copies of each bidder's proposals and the certification of the official start of construction from the architect, George, Miles and Buhr, who has retained the original copies.”

Finding 07-03:

During completion of Delmar School District's project checklists for Delmar Jr./Sr. High School renovations, it was noted that School District personnel were unable to determine whether bid bonds of at least ten percent accompanied bid proposals as specified by 29 Del. C. §6962(d)(8)a. They were also unable to provide evidence that the bid bonds were returned to successful and unsuccessful bidders as mandated by 29 Del. C. §6962(d)(8)b and the State of Delaware Budget and Accounting Policy Manual, XII.D.3.1. Bonds are to be returned to the successful bidder immediately upon awarding and execution of the contract. Securities of the unsuccessful bidders are to be returned within sixty (60) days after opening of bids. This was an oversight by the School District personnel. Noncompliance with provisions of the Delaware Code could potentially cause a delay in receiving future State funding.

Recommendation:

Delmar School District should establish procedures to ensure that bid bonds are submitted with contractors' bid packages and then returned to the successful and unsuccessful bidders as required by Delaware Code provisions.

School District's Response:

“Delmar School District will establish policies to ensure that bid bonds are submitted with contractor's bid packages and then returned to the successful and unsuccessful bidders as required by Delaware Code provisions.”

Finding 07-04:

During completion of Delmar School District's program and project checklist for Delmar Jr./Sr. High School renovations, it was noted that School District personnel were unable to determine if bidders submitted a detailed listing of their subcontractors for each project category as promulgated by 29 Del. C. §6962(d)(10)b. This was an oversight by School District personnel. Noncompliance with provisions of Delaware Code could potentially cause a delay in receiving future State funding.

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

Finding 07-04:

Recommendation:

Delmar School District should establish procedures to ensure that bidders are submitting a listing of subcontractors in accordance with guidelines established by the State of Delaware.

School District's Response:

"Delmar School District will establish procedures to ensure that bidders are submitting the proper listing of subcontractors in accordance with guidelines established by the State of Delaware."

Finding 07-05:

During completion of Delmar School District's project checklists for Delmar Jr./Sr. High School renovations, it was noted that the School District did not comply with 29 Del. C. §6962(d)(13)a. and the State of Delaware Budget and Accounting Policy Manual, XII.D.3.g. for notifying successful bidders on the status of award of the contract within sixty (60) days after opening of sealed bids. This was an oversight by the School District. They were unable to provide evidence that this procedure was done. Noncompliance with provisions of the Delaware Code could potentially cause a delay in receiving future State funding.

Recommendation:

Delmar School District should establish procedures to ensure that proper notifications to successful bidders are followed in accordance with the guidelines established by the State of Delaware.

School District's Response:

"Delmar School District will establish procedures to ensure that proper notifications to successful bidders are followed in accordance with the guidelines established by the State of Delaware."

Finding 07-06:

During completion of Delmar School District's project checklists for Delmar Jr./Sr. High School renovations, it was noted that approval of the construction project was not obtained from the Architectural Accessibility Board as required by 29 Del. C. §7308(a) and the State of Delaware Budget and Accounting Policy Manual, XII.D.2. Construction plans and specifications must be submitted for review and approval prior to the start of construction. School District personnel were unable to determine if such approval was received by the Architectural Accessibility Board. This was an oversight by School District personnel. Noncompliance with State of Delaware provisions, including Delaware Code and Budget and Accounting Policy Manual, could potentially cause additional remedial project costs to be incurred by Delmar School District.

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

Finding 07-06:

Recommendation:

Delmar School District should establish procedures to ensure that proper approvals from the Architectural Accessibility Board are obtained in accordance with the guidelines established by the State of Delaware.

School District's Response:

“Delmar School District will establish procedures to ensure that proper approvals from the Architectural Accessibility Board are obtained in accordance with the guidelines established by the State of Delaware. These procedures will be shared with the project architect.”

SCHEDULE OF PRIOR YEAR FINDINGS

APPENDIX B

The following schedule summarized the prior year findings and the status of the prior year findings.

Prior Year Finding	Recommendation	Status of Prior Year Finding
<p>05-01 - During completion of Delmar School District's construction program and project checklist for the renovations to the Delmar Jr./Sr. High School, it was noted that the state and local project funds were inappropriately expended. The certificate of necessity authorized funding for planning, construction, and equipping of renovations to the existing Delmar Jr./Sr. High School, including the addition of six classrooms and a 1500 square foot addition to the cafeteria. 29 Del. C. §7415 requires that funds appropriated by an authorization act be used only for the costs of the projects set forth in such act.</p> <p>Upon testing of a sample of expenditures, five of the twelve expenditures were not within the project scope set forth in the certificate of necessity. Those funds were used to pave the new parking lot and driveway located near the chorus/band room and for installation of a dust and fume collection system in the Technical, Shop, and Agri-science Lab. The five expenditures total</p>	<p>Delmar School District should repay appropriation 7510 \$ 48,583.09.</p>	<p>Not implemented.</p> <p>School District's response 6/30/07</p> <p><i>"Delmar School District has already processed an Expenditure Correction to correct the appropriation error."</i></p>

SCHEDULE OF PRIOR YEAR FINDINGS

APPENDIX B

Prior Year Finding	Recommendation	Status of Prior Year Finding
05-01 - \$ 48,583.09 and were charged to appropriation 7510.		
06-02 - During completion of Delmar School District's project checklist for the Delmar Jr./Sr. High School renovations, it was noted that the School District did not properly encumber a \$ 98,000 obligation. Personnel inadvertently only encumbered \$ 40,000 of the obligation, thereby understating the total encumbrance by \$ 58,000. Budget and Accounting Policy Manual VI.B.1. requires that correct amounts be charged at the time of issuance of the purchase order.	Delmar School District should complete an encumbrance adjustment of \$ 58,000 to correct EAE 95164210.	Implemented.
06-03 - During completion of Delmar School District's construction program, it was noted that expenditures were not properly capitalized in construction work in progress (CWIP) in the State's Fixed Asset Accounting Policy Manual, Section IV.B.3. Personnel erroneously reported \$ 1,252,171 as "Additions During Fiscal Year End June 30, 2006" instead of \$ 42,050, an overstatement of \$ 1,210,121. As a result, the "Value of All CWIP as of June 30, 2006" was also overstated by \$ 1,210,121.	Delmar School District's 2007 GAAP Package should reflect the \$ 1,210,121 correction in the "Adjustment to Beginning Balance" column on the "Summary of Construction Work in Progress (CWIP)."	Implemented.

SCHEDULE OF PRIOR YEAR FINDINGS

APPENDIX B

Status Key:

Implemented

The concern has been addressed by implementing the original or an alternate corrective action.

Not Implemented

The corrective action has not been initiated.

Partially Implemented

The corrective action has been initiated but is not complete and the auditor has reason to believe management fully intends to address the concern.

SCHEDULE OF CONSTRUCTION PROJECTS

APPENDIX C

Project Name	Fiscal Year	Original Funding Amount	De-auth Funding Amount	Total Project Funding to Date	Expended Current FY	Expended Prior FY's	Total Project Expended to Date	Total Unspent as of 06/30/07
Jr./Sr. High School Renovations	2005	\$ 1,575,000	\$ -	\$ 1,575,000	\$ 156,058	\$ 182,741	\$ 338,799	\$ 1,236,201
	2006	24,600	-	24,600	-	-	-	24,600
	2007	2,898,398	-	2,898,398	-	-	-	2,898,398
Totals		\$ 4,497,998	\$ -	\$ 4,497,998	\$ 156,058	\$ 182,741	\$ 338,799	\$ 4,159,199

Note: The prior fiscal year and total to date expenditures for the Jr./Sr. High School renovations project include the questioned costs of \$ 48,583.09 in Finding 05-01.

DISTRIBUTION OF REPORT

Copies of Delmar School District's Agreed-upon Procedures Attestation Engagement will be distributed by the Office of the Auditor of Accounts to the following public officials:

Executive Branch

The Honorable Ruth Ann Minner, Governor, State of Delaware
The Honorable Richard S. Cordrey, Secretary, Department of Finance
The Honorable Jennifer W. Davis, Director, Office of Management and Budget
The Honorable Valerie A. Woodruff, Secretary, Department of Education
Ms. Trisha Neely, Director, Division of Accounting
Mr. R. Thomas Wagner, State Auditor, Office of the Auditor of Accounts

Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of Controller General

Other Elective Offices

The Honorable Joseph Biden, III, Attorney General, Office of the Attorney General
The Honorable Jack Markell, Treasurer, State Treasurer's Office

Other

Ms. Dorcell S. Spence, Associate Secretary - Finance and Administrative Services Branch, Department of Education
Dr. David Ring, Jr., Superintendent, Delmar School District